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C O N F I D E N T I A L SECTION 01 OF 02 BANDAR SERI BEGAWAN 000044

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TAGS: [EINV](#) [ECON](#) [EPET](#) [BX](#)
SUBJECT: U.S. INVESTMENTS IN BRUNEI: ONE STILL ON THE LINE,
ONE GETS AWAY

Classified By: Ambassador Emil Skodon, reasons 1.4 (b) & (d)

SUMMARY

¶1. (C) Alcoa remains bullish on Brunei as a site for a large aluminum smelter that will help meet growing Asian demand. The project's ultimate fate will depend on whether Brunei and Malaysia can reach a resolution of an offshore boundary dispute that would allow development of new gas reserves to provide power for the smelter. Brunei is out of the running for another major U.S. investment, establishment of a Google data service center. Although Google's requirements could have been met, the reluctance of risk-averse Bruneian officials to provide written commitments to Google sunk the project, which may go to neighboring Malaysia. END SUMMARY.

ALUMINUM SMELTER PROJECT STILL ALIVE

¶2. (U) U.S. company Alcoa and the Brunei Economic Development board (BEDB) signed a one-year Memorandum of Understanding on January 30 to facilitate detailed studies on establishment of an aluminum smelter in Brunei. This MOU is the successor to two previous MOU's signed in 2003 and 2005 that gave Alcoa exclusive rights to develop the smelter project. Alcoa and BEDB also signed a separate MOU to support a youth and small business development project at the Youth Development Center operated by the Ministry of Culture, Youth, and Sports, a measure designed to help build a wider supplier base for the proposed smelter as well as to raise Alcoa's visibility and public standing in Brunei. Jon Erik Reinhardsen, President of Alcoa's Global Primary Products business unit, represented the company at both signing ceremonies.

¶3. (U) Phase one of the smelter MOU envisions a study to determine, inter alia, the optimum scope and dimensions of the proposed smelter, a power-delivery strategy, and associated port and infrastructure requirements. Following phase one, the parties to the MOU will decide whether to move forward with a full environmental and social impact assessment and basic engineering design work. The company envisages a smelter with production capacity of 360 thousand metric tons per year with the potential for an eventual increase to 600-700 thousand metric tons.

RESOLUTION OF OFFSHORE BOUNDARY DISPUTE CRUCIAL

¶4. (C) Ambassador attended the MOU signing and subsequent lunch. BEDB officials told Ambassador privately that the fate of the smelter project ultimately depends on resolution of Brunei's offshore boundary dispute with Malaysia, which

will determine Brunei's scope for developing potentially very large offshore gas deposits. That is because the Sultan has decided that only one trillion cubic feet (TCF) of current gas reserves will be allocated to industrial development projects sponsored by the BEDB, with the remainder reserved for liquefied natural gas (LNG) exports. Approximately one half of that one TCF is already dedicated to the methanol project to be constructed by Mitsubishi, and the remainder will not be enough to meet the needs of a power-hungry smelter. Unless sufficient alternative energy sources other than gas can be identified, which does not appear likely, BEDB access to the additional gas thought to lie in the offshore disputed zone will be the make-or-break factor for the smelter.

15. (C) Alcoa officials who spoke with Ambassador agreed with the view that resolution of the offshore dispute with Malaysia would be a key factor in their ultimate decision whether to move ahead with the smelter. Despite this uncertainty, and the difficulty of dealing with the slow pace and opaqueness of Bruneian decision-making, Alcoa remains committed to the project. The company envisions global demand for aluminum doubling by the year 2020, with much of that growth coming from China and India. It believes that Brunei's location, roughly equidistant from those two markets and the western Australian source of Alcoa's alumina inputs, make it an attractive site for a major smelter investment.

16. (C) Both Alcoa and Bruneian officials are relatively optimistic that the long-running offshore boundary dispute may be settled this year, based on reports that confidential negotiations between the two ASEAN members are going well. Bruneian officials told Ambassador that they did not expect any announcement of a resolution until after Malaysian elections, but that they hoped such an announcement could be

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made later this year.

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GOOGLE INVESTMENT LOST DUE TO BRUNEIAN TIMIDITY
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17. (C) The optimism of Bruneian officials over eventual resolution of the offshore dispute with Malaysia contrasted with their discouragement over another investment-related issue involving the Malaysians: establishment of a southeast Asian data center by U.S. internet giant Google. Referring to Malaysian Science and Technology Minister Jamaludin's remarks at the World Economic Forum in Davos to the effect that Malaysia had a good chance of winning this investment, BEDB officials told Ambassador that in fact Malaysia had only made Google's short list, and the company still needed to make a final decision on the data center site. They went on to explain ruefully that the reason they knew this information was that Brunei had failed to make that short list despite extensive BEDB efforts.

18. (C) According to BEDB, the problem was that Bruneian officials refused to provide written commitments that they could guarantee the supply and price range for electricity required by the data center. In fact, there was no doubt that Brunei, with its large oil and gas reserves, good infrastructure, and subsidized prices, could meet the requirements; the obstacle was that the relevant officials were afraid to put such a commitment to paper unless it was first explicitly approved by the Sultan, and no inter-agency mechanism existed for BEDB to force them to do so. Their timidity ultimately resulted in Brunei falling out of the running for an investment that would have been worth several million U.S. dollars and created 100-200 well-paying jobs in a high-tech industry.

SKODON